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DIRECTORATE OF
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Intelligence Memorandum

USAID review completed

The Economic Situation in South Vietnam, April 1973

State Dept. review completed

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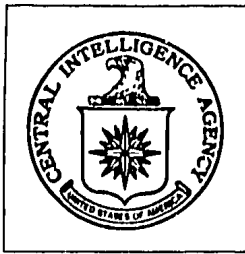
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**The Economic Situation in South Vietnam,
April 1973**

There is still no firm evidence that the South Vietnamese economy is emerging from its year-long recession. Business activity in Saigon is still below the pre-offensive pace. Prices have actually fallen slightly during the past month, and the overall rate of inflation since the start of the year has been less than 10%. Black market dollar prices have dropped sharply to near the official rate, and the volume of transactions on the currency black market is quite low.

In the countryside, commercial transport is moving at near-normal levels, and attempts to restore rail service are being made. Inflation, refugees, and high taxes (both Viet Cong and government) are the major short-term problems. Communist intervention in the economy remains selective and disorganized but continues to cause some disruption in many areas. Local economic activity could probably increase substantially countrywide even without major investment if a stable peace were achieved.

The South Vietnamese government has recently completed a series of economic studies laying out targets for 1973-80. The projections are extremely ambitious and are unlikely to be realized because they depend on a combination of highly optimistic conditions.

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Note: Comments and queries regarding this publication are welcomed. They may be directed to [] the Office of Economic Research []

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DISCUSSION

Recent Developments¹

1. The economy continues to function without any serious dislocations from the limited military activity now taking place, but there is still no firm evidence that the current recession is drawing to a close. Commodity sales in Saigon are still somewhat depressed, even though there has not been a serious interruption of the flow of goods to the capital for several weeks. Up somewhat from last year's low point, business activity is still off the pace that preceded the 1972 offensive. Many industries are still not operating near capacity and unemployment remains a problem. On the other hand, import orders have risen sharply since the first of the year, a probable indication of some increase in business confidence and expectations.

Saigon Prices

2. With the slack in consumer and investor demand, inflation has abated from the earlier months of 1973, when tax changes, devaluations, and sporadic shortages related to military incursions drove prices up sharply. Indeed, since the end of March, Saigon's consumer price index has declined by about 2%.² Since the beginning of the year, from a peak increase of about 11% on 26 March, retail prices were up by only 9% in late April. The food index as of 23 April was up about 8% for the year, compared with a peak of 9% one month ago. The price of rice has remained relatively stable recently. The non-food index is now up nearly 13% for the year and has remained virtually unchanged for the past month. Prices for a few petroleum-derived commodities, however, continue to increase rapidly, apparently still adjusting to the higher official prices for petroleum products.

Currency Markets

3. The currency markets continue to present a reassuring picture of stability and diminished interest in speculation. The steady and rapid decline of black market currency rates that began in early March has brought them down to levels very near the official exchange rate of 475 piasters to US \$1. The black market price for dollars on 23 April was only 485 piasters down from 550 piasters at the end of March and nearly 100 piasters from the peak recorded on 5 March. The low black market rates reflect such factors as the continued tight cash position in the business community, US personnel using dollars instead of MPC (which now are bought and sold only as souvenir items), and a generally favorable reaction to President

1. Charts showing major economic indicators and the government budget follow the text.

2. Inflation appears to be continuing in other parts of the country, however, as discussed below.

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Thieu's recent visit to the United States and his reported assurances of continued US economic assistance. At latest report, the volume of black market currency transactions had declined nearly to zero. Gold prices also have fallen sharply from their peak in early March. On 23 April the price of gold leaf was 37,700 piasters per troy ounce (about \$79), and has remained at about this level for the past month.

Conditions Outside Saigon

4. Commercial transport in many areas of the country is now moving at near-normal levels, and rail service is even being restored between some cities. Trains, for example, are once again making trips between Da Nang and Hue in Military Region 1. Most of the rail links along the coast of Military Region 2, inoperable since the 1972 offensive, remain closed. Repairs continue to be interrupted by Communist harassment. Supply convoys up the Mekong River from South Vietnam to Phnom Penh are also having difficulties because of Communist control of parts of the border area.

5. Reports from the new provincial reporting system³ are beginning to provide some picture of activity and attitudes in particular areas. In the more secure provinces of the Delta, for example, economic activity appears to have picked up, and rural credit from both the Agricultural Development Bank and the private rural banks continues to expand rapidly. In addition, several rural banks have recently opened. Throughout the country, the major concerns of the people are inflation, high import prices (especially for agricultural inputs such as fertilizer and pesticides), and increased taxes. Taxes, although still quite low, have risen sharply in the past year and, more importantly, the government is making a concerted effort to collect them. High taxes are also causing some discontent in Hue, where taxpayers complain of being caught between rising prices and sharply increased local taxation, intended to help meet the goals of province self-sufficiency.

A Closer Look at Two Provinces in Military Region 3

6. American observers in Binh Duong and Binh Long (north of Saigon) report that the economies of these two provinces have excellent growth prospects despite extensive war disruption. Both provinces are subject to heavy Communist influence; their most serious direct economic loss to the war has been abandonment of land because of insecurity or the destruction of rubber trees and forests. Indirectly, the war has caused both a major manpower shortage and rapid inflation. In Binh Duong the cease-fire has thus far brought little economic improvement, although some

3. Operated by the US consulates throughout South Vietnam.

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refugees have returned and the Michelin rubber plantation has been reopened. Inflation is currently the most important economic problem, and complaints of rising prices are reportedly becoming louder and more pointed. The recent increase in the price of gasoline, for example, caused a corresponding rise in prices of all goods requiring transportation, and, at the end of March, some food prices were double their January levels.

7. A stable peace could yield rapid and dramatic improvements in both agricultural and industrial output in Binh Duong. In addition to the reopening of the rubber plantation, investment in a large farmers' cooperative, which was stalled last year, picked up immediately after the cease-fire and could become a significant factor in agricultural development under peaceful conditions. Forest land is also likely to be reopened to cutting soon. Furthermore, plans are being made to open the Binh Duong sugar refinery, perhaps before the end of this year. The refinery, built by the government in 1968 and stocked with modern equipment, was never opened because of the Tet offensive in that year.

8. The potential gains to Binh Long are even greater because there is practically no economically productive activity currently being carried on in the province. The majority of the population lives in refugee camps, while the remainder, in the areas controlled by both the government and the Communists, lives at a subsistence level. Real peace would permit the return of at least 40,000 refugees, the restoration of rubber plantations in the An Loc area, and the resumption of economic activity in regions now under Viet Cong control.

Refugees

9. Caring for refugees remains one of the most pressing and costly problems for the government. The resettlement and return-to-village programs are just getting off the ground and at the moment are barely ahead of the inflow of new refugees since the cease-fire. As of 21 April, about 600,000 people (compared with 620,000 just prior to the cease-fire) remained in government camps. The first phase of the Quang Tri return-to-village program is now essentially complete. As of 21 April, some 22,000 refugees previously in Da Nang and Hue had returned to the southernmost district of the province. Smaller numbers have returned to Quang Tin and Quang Nam, also in Military Region 1.

10. The US Embassy in Saigon has transmitted a revised estimate of the government's 1973 budget requirements for refugees, which is roughly double the previous estimate. These are distributed as follows⁴:

4. Costs converted from piasters to dollars at the official exchange rate of 475 piasters to US \$1.

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Million US \$

Total	90.0
In-place war victims	11.0
Displaced war victims	28.9
Resettlement	21.6
Return-to-village	27.0
Other	1.5

The estimates assume that all the refugees presently in camps will be in new or former homes by the end of the year and that no new refugees will be generated. Some 250,000 people are to be resettled, and the remainder are to be returned to their own villages. Expenditure requirements this year will be less – although still large – if this ambitious program is not achieved. Additional expenditures, however, would naturally be required if the number of refugees increases. Solution of the refugee problem is almost entirely dependent on the success or failure of the cease-fire.

Government Economic Projections

11. During his recent trip to the United States, President Thieu brought with him a set of relatively detailed economic studies on South Vietnam. Included was a postwar economic plan/forecast for the period 1973-80. Perhaps the most important facet of the projections from the vantage of US policy is the attempt to delineate some external capital requirements (including foreign aid), but significant differences between the Vietnamese and earlier US studies will necessitate detailed and extensive analysis to determine the reliability of the estimates. Growth rates and the pace of institutional/structural change in the plan are high. Gross national product (GNP) is projected to grow, in real terms, at an average annual rate of about 7.5% (15% for industry), with the rate accelerating from 5% in 1973 to 9% in 1977-80. This implies a per capita GNP increase of somewhat more than 4% per year, or closer to 5% if the plan's projections of slower population growth are achieved. Per capita consumption, however, would not increase as fast, as a larger share of incomes would go to saving and investment. Investment as a share of GNP would rise sharply. Private consumption as a share of GNP would fall from 75% in 1973 to about 60% in 1980, while government consumption would, in relative terms, fall even more rapidly, from a high of 32% in 1973 to under 20% in 1980. Moreover, by the end of the decade, government expenditures would be financed wholly from tax revenues; government revenues, as a share of GNP, would rise from about 10% in 1972 to close to 20% in 1980, with a much larger proportion arising from domestic taxation as opposed to import revenues.

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12. Allowing the possibility of growth of this sort, it is still not clear that the projected changes in foreign accounts are attainable. Estimated export earnings increase rapidly. After approximately doubling in both 1973 and 1974, commodity exports are projected to increase at an average annual rate of about 40% for the rest of the period, rising to \$606 million in 1980. Tourism is also expected to become significant in the second half of the decade, netting an additional \$150 million by 1980.

13. The plan's particularly ambiguous treatment of import requirements constitutes one of the crucial differences between the Vietnamese and US studies of growth possibilities and foreign support requirements. Imports other than those required for major reconstruction and development projects are projected to increase in 1973-74 and then to remain at about the \$850 million level for the remainder of the period. These projections are based on the assumption that most imports of agricultural commodities (such as rice, sugar, and dairy products) would be replaced by increases in domestic production. Rapid expansion of import substitution industries is also assumed to cut down on imports of consumer goods. The apparent precision of these data is undercut, however, by the decision of the Vietnamese to leave out of their annual estimates any provision for imports needed to support reconstruction and development, which are expected to require some \$4 billion of spending during 1973-80. Because of this, it is also difficult to perceive what time profile is expected for foreign assistance.

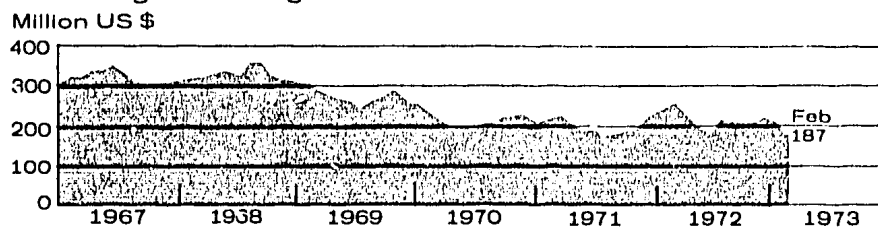
14. On the basis of the experience of other less developed countries, the Vietnamese plan, on preliminary inspection, appears to contain very ambitious targets for GNP, investment, and reductions in population growth. These targets in turn depend on a highly optimistic combination of circumstances - very favorable political/military conditions, high foreign interest, and a very positive domestic response to economic policies. As noted earlier, total foreign support requirements cannot be evaluated without extensive analysis of the methodology used to project import requirements. The projected rate of growth of commodity exports, however, is faster than that maintained by South Korea in its best years, which was, in turn, one of the fastest in international experience. On balance, the plan targets represent an extremely optimistic view of the future.

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Figure 1

South Vietnam: Economic Indicators

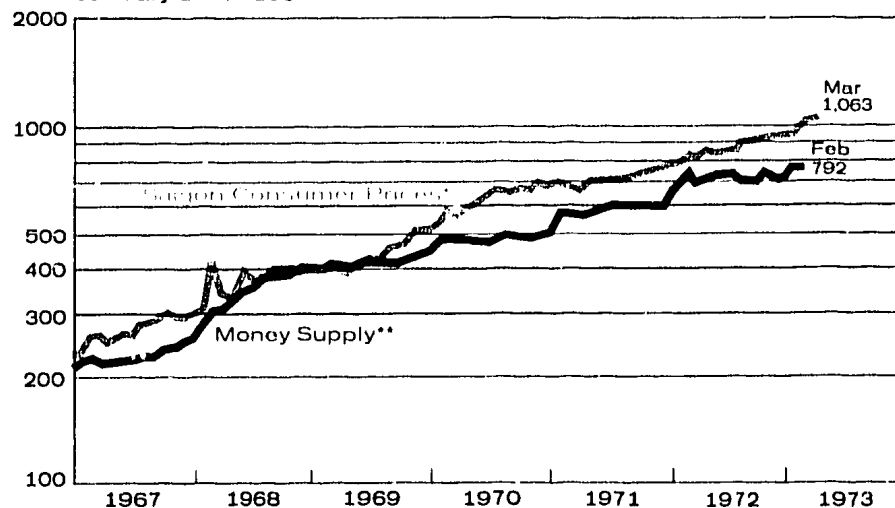
Foreign Exchange Reserves*



*Consisting of gold and foreign exchange held by the National Bank of Vietnam.

Indexes of Money Supply and Saigon Consumer Prices

January 1965=100

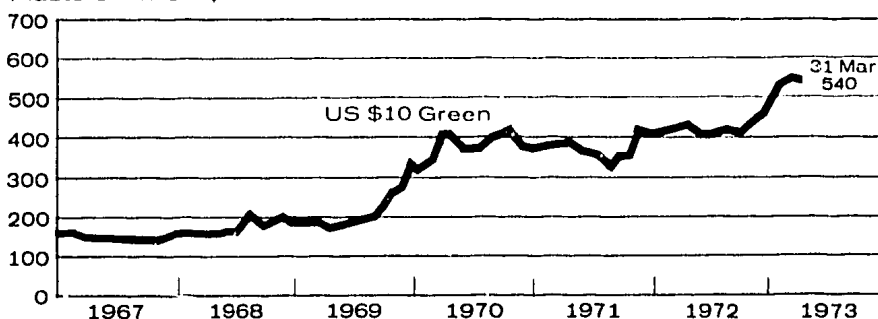


*USAID monthly average retail price index for Saigon.

**Data are for end of month.

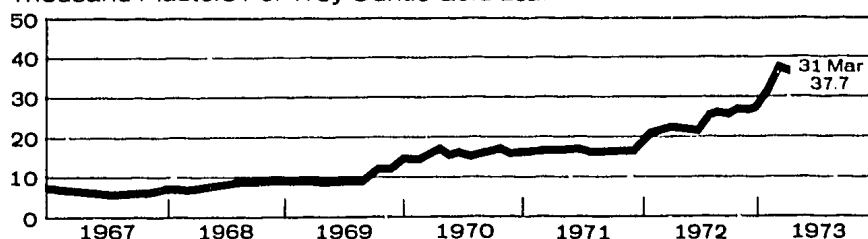
Free Market Currency Prices

Plasters Per US \$



Free Market Gold Prices

Thousand Plasters Per Troy Ounce Gold Leaf

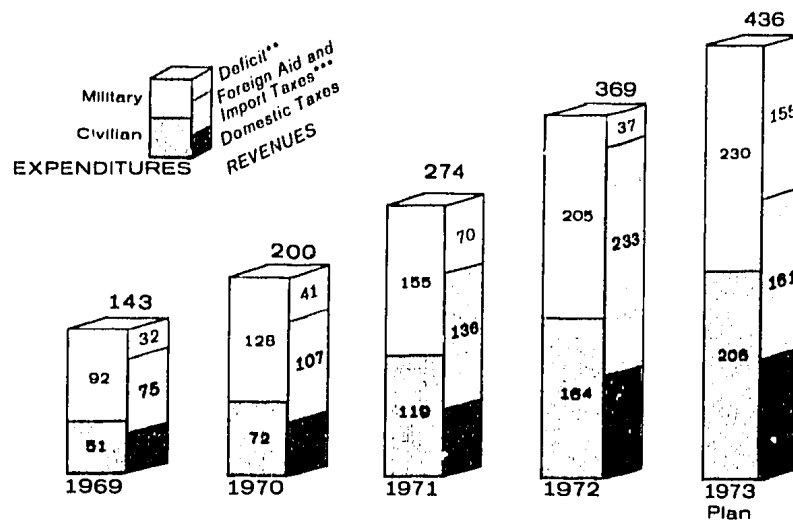


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Figure 2

South Vietnam: Government Budget*

Billion Plasters



*Data include extrabudgetary revenues and expenditures.

**Residual. Financed primarily by borrowing from the National Bank.

***Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions.

A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.

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